



Fuel Taxes Newsletter

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In This Issue . . .

Article Number

All Fuel Tax and Fee Programs

New legislation takes effect	1
Civil behavior in trying times	11
Ethics at work—thank you is enough	12

Motor Vehicle Fuel Tax and Diesel Fuel Tax Programs

Proper transaction reporting	2
Reporting two-party exchanges	3
E-filing is easy and reliable	4

Motor Vehicle Fuel Tax Program Only

Use correct product codes to identify gasoline containing ethanol (gasohol)	5
Taking a credit for tax-paid fuel exports	6

Diesel Fuel Tax Program Only

First-time filers of claim for refund need account number	7
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Underground Storage Tank Maintenance Fee

Rate to increase January 1, 2005	8
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International Fuel Tax Agreement (IFTA) and Interstate Diesel Fuel (DI) License

Interstate user tax to increase	9
IFTA carriers: Renew your credentials to avoid penalty charges	10

For Interested Parties

<i>Fuel Taxes Newsletter</i> moving to electronic distribution	13
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All Fuel Tax and Fee Programs

1. New legislation takes effect

The following summaries are for fuel tax-related legislation enacted during the 2004 legislative session. Unless otherwise indicated, the changes are effective January 1, 2005.

For copies of bills, please write to the Legislative Bill Room, State Capitol, Room B-32, Sacramento, CA 95814. Or you can download information from www.leginfo.ca.gov/bilinfo.html. Be sure to download the final, “chaptered” version of the bill.

Underground Storage Tank Maintenance Fee. Assembly Bill 1906 (Stats. 2004, ch. 774) increases the underground storage tank maintenance fee to \$0.013 on January 1, 2005, and \$0.014 on January 1, 2006. See article on page 3.

Multi-program. Senate Bill 1881 (Stats. 2004, ch. 527) sponsored by the Board of Equalization, makes the following changes:

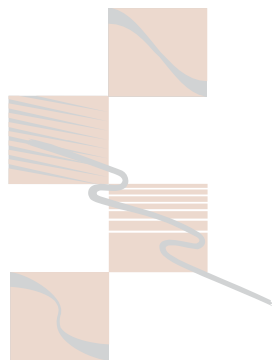
- **Oil Spill Response Fee.** Allows us to grant relief from penalty when a feepayer fails to file an information report.
- **Childhood Lead Poisoning Prevention Fee and Water Rights Fee.** Amends the Hazardous Substance Tax Law and the Fee Collection Procedures Law to clarify that when we are authorized to collect a tax or fee for another state agency, we may issue a notice of determination or similar billing for collection of the fee instead of a tax or fee return.

Motor Vehicle Fuel Tax and Diesel Fuel Tax Programs

2. Proper transaction reporting

Suppliers

Report the document number, gallons, and product information on your schedules as provided by



December 2004
Fuel Taxes Newsletter

the terminal operator on the terminal-produced bill of lading.

Point of Origin identification on supplier schedules. Be sure to enter the IRS terminal control number (TCN) for every terminal rack removal.

Mode Code J (Removal of Fuel by Truck). We need your help with transactions involving the transportation of fuel by truck (Mode Code J). Please do not combine multiple truckloads of fuel and report them as a single transaction. We will question any Mode Code J transaction that exceeds 10,000 gallons.

Mode Code CE (Summary Information). Use this mode code to report line-item transactions not reportable on the detailed schedules. Mode Code CE is valid only for suppliers of motor vehicle or diesel fuel on Summary Code Schedules S02A, S03A, S04, and S051.

Terminal Operators

Be sure that the information on the bill of lading you provide to your position holders—document number, gallons, and product detail—is the same as you report to us on your *Terminal Operator Report*.

Mode Code BA (Book Adjustment). Use this mode code for product reclassifications or for conversions of product at the terminal that result in a product code change.

Mode Code CE (Summary Information). Use Mode Code CE with product code 092 (undefined [other] products) or 122 (other gasoline blend-stocks).

Vessel/Pipeline Operators

Please make sure that each transaction document number is the same as that on the terminal- or refinery-produced bill of lading. The vessel/pipeline operator and the terminal operator must report the same document number to us.

Mode Codes on Carrier Summary Reports. Use only these mode codes on Schedule PD: B (barge), PL (pipeline), and S (ship).

Mode Code CE (Summary Information). Please do not use this mode code.

3. Reporting two-party exchanges

Recently enacted federal legislation (HR 4520) authorizes two-party exchange reporting for federal motor fuel tax purposes. We are currently analyzing this legislation for its effect on California motor fuel tax reporting and will provide guidance to industry members in the near future.

4. E-filing is easy and reliable

E-filing is easier and more reliable than filing paper. Our new e-filing method makes it much easier for you to submit your fuel data electronically. Since many filers use Microsoft Excel to complete their paper tax schedules, we created Excel workbooks that let you create a file suitable for electronic filing with the click of a mouse. You can download the workbooks at www.boe.ca.gov/electsrv/efiling/efilefueltaxguide.htm.

For more e-filing information. If you are interested in participating in e-filing or want more information, go to our website at www.boe.ca.gov and click on the “E-File Information” link under “Electronic Services.” You may also call the Fuel Taxes Division at 916-322-9669 or send an e-mail to us at efile@boe.ca.gov.

Motor Vehicle Fuel Tax Only

5. Use correct product codes to identify gasoline containing ethanol (gasohol)

All gasoline sold for use in California now includes ethanol in place of MTBE. For tax reporting purposes, this fuel is classified as gasohol. You should not use product code 065 (gasoline) to report transactions involving this or any other fuel containing ethanol.

Terminal operators and suppliers should use the following product codes to report all transactions of gasoline containing ethanol:

- Gasohol – 5.7%: Product code 140
- Gasohol – 7.7%: Product code 141
- Gasohol – 10%: Product code 139
- Gasohol – Other Blends: Product code 124

Terminal operators should make sure their records reflect the proper book adjustment reclassifying the gasoline and ethanol components to gasohol when they report removals from the terminal.

You should still use Product Code 065 (gasoline) on *Vessel/Pipeline Operator Reports (Common Carrier Reports)*, *Terminal Operator Reports*, and *MVF Supplier Returns* when the gasoline does not contain ethanol.

If you have any questions regarding these reporting requirements, please contact the Fuel Taxes Division at 916-322-9669.

Need more information?
Give us a call or go online. See the back page for telephone numbers and website addresses.

6. Taking a credit for tax-paid fuel exports

Motor vehicle fuel suppliers who deal in tax-paid as well as tax-free fuel may find that in some reporting periods, their tax credits for exporting tax-paid fuel exceed the tax due. Since suppliers cannot file a *Supplier of Motor Vehicle Fuel Tax Return* indicating a negative tax amount, they must take other measures to compensate for the excess tax paid.

If your credit for exported tax-paid motor vehicle fuel exceeds the tax due from in-state rack removals and imports in a reporting period, use summary schedule S02A to balance your return to zero. You may claim your excess exports credits on summary schedule S03A in the following *two months*, provided you have tax due to offset. If you cannot exhaust all your credits in this way, you may file a claim for refund with the State Controller, using the *Claim for Refund of Motor Vehicle Fuel Tax* (Form SCGR-1). Send your request to the

California State Controller's Office
Division of Collections
Bureau of Tax Administration
P.O. Box 942850
Sacramento, CA 94250-5880

Regulation 1132 does not allow you to carry over a credit beyond the third month.

Diesel Fuel Tax Only

7. First-time filers of claim for refund need account number

Please provide this information to your customers if they need to file a first-time claim for refund for tax-paid diesel fuel used for nontaxable purposes.

First-time filers of the *Diesel Fuel Claim for Refund on Nontaxable Uses* (form BOE-770-DU) must apply for a diesel user (DU) account number before they file their claims for refund. Claimants must submit a completed *California Fuel Taxes/Fees Application* (form BOE-400-FTA), to our Fuel Industry Section-Refund Unit, MIC: 30; Board of Equalization; P.O. Box 942879; Sacramento, CA 94279-0030. Copies are available from the Fuel Industry Section at 916-322-2046 or on our website at www.boe.ca.gov/pdf/boe400-fta.pdf.

The applicant will receive an account number approximately two weeks after we have received the completed application. We will hold any claims for refund filed before we process the application.

When the application has been reviewed and an account number issued, we will send the applicant a copy of form BOE-770-DU, *Diesel Fuel Claim for Refund on Nontaxable Uses*, once a year. Those who need to file claims more frequently should contact our Fuel Industry Section to request a change in filing basis. We will not process an applicant's claims more than once a year unless we first approve a request for quarterly filing.

■ Underground Storage Tank Maintenance Fee

8. Rate increases January 1, 2005

On January 1, 2005, the underground storage tank maintenance fee will increase to thirteen mills (\$0.013) for every gallon of petroleum products placed in underground storage tanks. The increase was the result of the passage of Assembly Bill 1906 (Stats. 2004, ch. 774), which amended section 25299.43 of the Health and Safety Code. The bill also increases the fee an additional mill (\$0.001) on January 1, 2006, to \$0.014 per gallon. The change is expected to expand underground storage tank maintenance fee revenue by approximately \$19.6 million during 2005 and \$40 million in 2006. For more information on this fee, visit our website at www.boe.ca.gov and read publication 88, *Underground Storage Tank Fee*. You can also order a copy from our Information Center by calling 800-400-7115 (TDD/TTY: 800-735-2929).

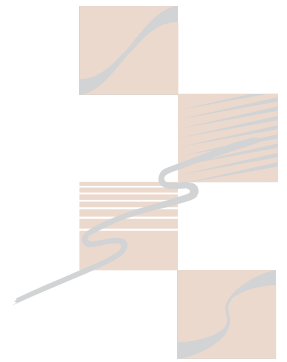
■ International Fuel Tax Agreement (IFTA) and Interstate User Diesel Fuel (DI) License

9. Interstate user tax rate to increase

For calendar year 2005, California's interstate user tax will increase from 27.8 cents per gallon to 29.5 cents per gallon. Most interstate carriers who travel on California highways pay the tax through the International Fuel Tax Agreement. Interstate carriers who travel only between California and Mexico (DI licensees) also pay the interstate user tax.

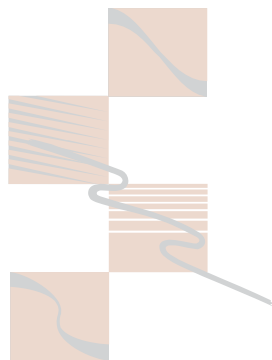
The 29.5 cents per gallon interstate user tax rate is a combination of two amounts:

- 18 cents per gallon—the same as the per-gallon rate for diesel fuel tax, plus
- 11.5 cents per gallon—equal to 7.25 percent of the average retail price of motor vehicle fuel sold in California.



December 2004
Fuel Taxes Newsletter

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December 2004
Fuel Taxes Newsletter

Credits and refunds

Credit for interstate user tax. Registered IFTA and DI carriers may claim a tax credit on their returns of 29.5 cents per gallon for tax-paid diesel fuel they purchased in California—whether or not the fuel is used in this state.

Refund of diesel fuel tax for nontaxable use. As you know, some uses of diesel fuel in the state aren't taxable, including off-highway use. Interstate users may not claim a credit or refund on their IFTA or DI returns for diesel fuel used in a nontaxable manner. Instead, they must file a *Diesel Fuel Claim for Refund on Nontaxable Uses* (form BOE-770-DU) for the diesel fuel tax portion of the interstate user tax (18 cents per gallon). See article for first-time filers on page 3.

10. IFTA carriers: Renew your credentials to avoid penalty charges

Don't forget to apply for your 2005 IFTA credential. Your current credential will expire December 31, 2004 (unless we revoke, cancel or suspend it before then).

If you haven't yet applied for a 2005 credential, please do so right away. As explained below, you are subject to a penalty charge if you enter California on or after January 1, 2005, without a proper IFTA credential (see grace period information) or California Fuel Trip Permit.

Grace period for carriers who have applied and paid for their 2005 credentials

You have until February 28, 2005, to display your 2005 decals if you are an IFTA carrier in good standing with your base jurisdiction (all returns filed, no tax or penalty unpaid, and a timely renewal filed and paid). Many IFTA jurisdictions, including California, step up their IFTA license enforcement beginning on March 1 of each year.

Penalty charge

You will be assessed a penalty if you enter California without a valid IFTA credential or California Fuel Trip Permit. The penalty will be calculated in one of two ways:

- If we determine that you owe an amount for fuel tax, the penalty is 25 percent of the tax or \$500, whichever is more. You will also owe the tax due.
- If we do not determine that you owe tax, the penalty is \$100. For subsequent violations, the penalty increases by \$100 per violation until it

reaches \$500. For example, the minimum penalty is \$200 for a second violation and \$300 for a third violation.

In addition to paying a penalty, you will also be required to purchase a California Fuel Trip Permit to travel in California. The current cost is \$30 for a single vehicle for a consecutive four-day period.

■ All Fuel Tax and Fee Programs, continued

11. Civil behavior in trying times

Some observers have noted that civility is decreasing in our society as our lives become more complex. We know that you may find yourself frustrated with the difficulties of the tax law or pressed for time when dealing with our staff. Still, we ask that you treat our employees just as you would like to be treated in a business situation. Any statement made to a Board of Equalization employee that seems remotely like a threat—even a statement made in jest—will be referred to our Internal Security and Audit Division for investigation.

12. Ethics at work—"thank you" is enough

During the holiday season, many of you offer gifts to customers, suppliers, and others with whom you do business. We must ask, however, that you not extend your generosity to our employees. A simple "Thank You" or "Happy Holidays" will do—and will be much appreciated. Board of Equalization policy prevents our employees from accepting gifts of any type.

■ For Interested Parties

13. Fuel Taxes Newsletter moving to electronic distribution

This is the last issue of the *Fuel Taxes Newsletter* we will mail to recipients who do not have fuel tax permits or licenses. If you'd like to receive an electronic version of the newsletter, you may subscribe online. See www.boe.ca.gov/news/ftncont.htm. This change will save thousands of dollars in printing and postage each year.

Fuel Taxes Division

916-322-9669

Board of Equalization, MIC:30
P.O. Box 942879
Sacramento, CA 94279-0030

Internet

www.boe.ca.gov

Tax Evasion Hotline

888-334-3300

Legislation

www.leginfo.ca.gov

Taxpayers' Rights Advocate

888-324-2798

www.boe.ca.gov/tra/tra.htm